



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

April 3, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**MOTION TO SEND A FIVE-SIGNATURE LETTER TO THE GOVERNOR AND THE
LEGISLATURE IN SUPPORT OF THE LEGISLATIVE ANALYST'S
RECOMMENDATIONS ON REFORMING THE FINANCING OF LOCAL
GOVERNMENT (ITEM NO. 2, AGENDA OF APRIL 8, 2003)**

Item Number 2 on the April 8, 2003 agenda is a motion by Supervisor Antonovich "to send a five-signature letter to Governor Davis and the State Legislature to review for implementation Legislative Analyst Elizabeth Hill's recommendations on reforming the financing of local government." This item was originally the second part of a two-part motion, of which the first part requesting my office to "provide suggestions... on ways that the system of local government financing can be restructured" was approved on March 18, 2003.

Reform of the State-local relationship, including the financing of local government, is a complex topic that has been the focus of numerous reports by various commissions and task forces, especially since the Passage of Proposition 13 in 1978. A report describing the nature of the problems confronting counties and suggestions for addressing these problems will be provided to the Board shortly. This report deals with just one of those possible ways, a 1993 proposal by the Legislative Analyst (LAO) to rethink and realign the functions of State and local government, including their financing. The LAO's report, "Making Government Make Sense", is the subject of the motion before you. (A copy is attached). Our report provides a summary of the LAO's recommendations, especially their impact on counties, and reviews related developments since 1993, including current proposals to realign State-county programs and finances.

“Making Government Make Sense” – The Impact on Counties

Before discussing the LAO’s recommendations, it is important to consider the context in which they were made. In the midst of a State budget crisis in 1993 and faced with a Governor’s recommendation to reduce the State’s costs of funding K-12 education by shifting property taxes from local governments to schools, the LAO concluded that the Governor’s proposal would make a bad situation even worse. Local governments, especially counties, were already experiencing fiscal distress which reduced revenue would only worsen. Prior to any budget decisions about revenue allocations, the LAO urged the Legislature to undertake a complete review and restructuring of government at all levels. To stimulate interest and debate, the LAO proposed an “ideal” model of what a restructured State-local system should look like, including the revenue changes needed to make the new system work.

“Making Government Make Sense” is a thorough and thoughtful attempt to rethink the relative roles and responsibilities of State and local governments to determine which level could best perform each responsibility and then provide them with the necessary authority and resources to do the job. The proposed reorganization is based on four “basic principles of reform”: maximize the separation of State and local government duties through appropriate alignments of control and funding responsibilities; match redistributive programs with redistributive revenues at the State level; restructure program linkages to promote coordination of service delivery at the local level and remove barriers to innovation; and financial incentives to promote prevention and coordination. The table below contains the proposed allocation of responsibilities:

PROPOSED ASSIGNMENT OF BASIC RESPONSIBILITIES		
STATE		
Uniformity Needed		Statewide Benefits
Cash Grant Programs		Higher Education
Aid to Families With Dependent Children (Family Group and Unemployed Parent)		Long-Term Custody
General Assistance		State Prisons
Basic Health Care		State Hospitals
Medi-Cal		Trial Courts
Indigent Health		Appeals Courts
In-Home Supportive Services		State Parks
Developmental Services		K-14 School Funding
Public Health		
Welfare Administration		

Uniformity Needed (continued)		
Child Support Enforcement		
Unemployment Insurance and Disability Insurance Administration		
LOCAL (CITIES AND COUNTIES)		
Linkage-Driven (Community-Based Services)		
Mental Health		Greater Avenues for Independence
Child Welfare Services		District Attorney
Foster Care		Public Defender
Adult Protective Services		Probation/Parole
Substance Abuse Services		Jails/Corrections
Job Training and Employment		Police
Local Benefits (Municipal Services)		
Fire		Culture/Leisure
Paramedics		Housing
Sanitary Inspections		

Under the LAO's model, local governments would be assigned responsibility for all community-based programs and housing, with city governments financially responsible for their residents and counties financially responsible for unincorporated residents. While it was assumed that cities would contract with counties for the provision of most social services, communities would bear the full financial burden and the State would surrender program control.

Because the model would have the net effect of shifting program costs from the state to local governments, the model also included a revenue system. In addition to paying for the cost shift, the proposed revenue system sought to "eliminate barriers to priority-setting at both the state and fiscal levels and (2) eliminate the existing counterproductive fiscal incentives and fiscal disparities of the existing local revenue system." In other words, the proposal sought to reform the revenue system as well as provide sufficient funding for the realigned programs.

The table below summarizes the LAO's proposed changes to the revenue system:

CHANGES IN REVENUE ALLOCATIONS
Offset Cost Impacts of Program Responsibility Changes
Shift property tax allocations from schools to cities and counties to offset net state-local cost shifts.
Eliminate Counter-Productive Fiscal Incentives
Transfer 1 percent local sales and use tax to state level, offset with increased property tax allocations.
Higher State Funding for Schools to Offset Property Tax Shift
Reduced school property tax allocations offset by higher state assistance.
Equalize Opportunities for Community Success
Re-determine each community's allocation of property taxes, taking into consideration the need for both municipal and community-based services.
Facilitate Priority-Setting
Repeal earmarking of realignment and cigarette tax revenues, eliminate schools' minimum funding guarantee.

Instead of the Governor's proposal to shift local government property taxes to schools, the LAO proposed to shift school property taxes to local governments to cover their increased costs from the realignment of services, as well as to replace the loss of revenue from eliminating the 1 percent local sales tax, replacing the latter with a corresponding increase in the State sales tax. Instead of a dollar for dollar exchange of property tax for sales tax, the LAO proposed a reallocation of all property tax revenues among local governments in a two-step process that would take into account local fiscal capacity and need. The first allocation for traditional municipal services would take into account a community's other sources of revenue. The second allocation for community-based services would be based on each community's relative need for these services. However, after the initial allocation of property taxes, future growth would be allocated based on where it occurred. In addition, a majority of local voters would be able to approve a property tax rate in excess of Proposition 13's one percent limit.

Designed without regard to constitutional limitations, the requirements of Federal law or regulations, or the constraints of interest group, bureaucratic, and partisan politics, the proposal presented a seemingly insurmountable problem of how the obstacles to its implementation would be overcome. Even the LAO conceded that it would need to be phased in over time. Federal laws needed to be changed and/or waivers obtained. And a series of controversial amendments to the State constitution needed to be approved by the voters, including the elimination of Article XIII B (which provides for State and local spending limits and State reimbursement of mandated costs), the granting of equivalent municipal powers to all cities and counties, the elimination of the homeowners' property tax exemption, and the transfer of trial courts to the State.

"Making Government Make Sense" stimulated considerable discussion but little action. In the intervening years, the only realignment of responsibilities recommended in the report that has occurred is the State takeover of trial courts and child support enforcement. Moreover, the tide of State policy discussion in the 1990s moved away from making the State-county relationship more rational. This is evidenced by the State's unwillingness to return county and city property taxes shifted to schools in 1992-93 through the enactment of the Education Revenue Augmentation Fund (ERAF), or to cap its growth.

Faced with another State budget crisis, Governor Davis is proposing the realignment to counties of over \$8 billion in State program costs and revenue. While supportive of his realignment proposal, the LAO has noted that some of the Administration's proposed programs offer little in terms of logical realignment of State-county roles and responsibilities. For example, the proposed realignment of IHSS and CalWORKs administration may reduce State General Fund costs, but it offers counties little flexibility or opportunity for innovation because these programs are entitlements with eligibility and benefit levels that are controlled by State and Federal policies.

Again, as indicated previously, we will be submitting a separate report on the problems confronting counties, and suggestions to address these problems.

DEJ: GK
MAL:JR:ib

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 Legal Strategist